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SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, 1951

No. 250

THE UNITED STATES OF AMERICA,
Appellant,

vs.

NEW WRINKLE, INC., AND THE KAY & ESS COMPANY.

APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF OHIO

MOTION OF NEW WRINKLE, INC., TO DISMISS.

H. A. TOULMIN, JR.,
Counsel for Appellee, New Wrinkle, Inc.

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IN THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF OHIO, WESTERN DIVISION

(ON PLAINTIFF'S APPEAL TO THE SUPREME COURT OF THE UNITED STATES)

Civil Action No. 1006

Filed Aug. 3, 1951

UNITED STATES OF AMERICA,

Plaintiff,

vs.

NEW WRINKLE, INC. AND THE KAY & ESS COMPANY,

Defendants

MOTION TO DISMISS BY NEW WRINKLE, INC. THE APPEAL OF THE UNITED STATES OF AMERICA PURSUANT TO RULE 12, PARAGRAPH 3, RULES OF THE SUPREME COURT OF THE UNITED STATES

Statement of the Legal Situation

This case was dismissed below on the sole ground of lack of jurisdiction under the Anti-Trust laws of the United States. The Court did not deal with any factual matters except those admitted by the Government *on jurisdiction* in its Petition to the extent they dealt with jurisdiction: no

answer has been filed and no issue joined and there are no findings of fact or conclusions of law. Defendant's counsel appeared solely for the purpose of contesting the jurisdiction.

Government's Misconception of Remedy

The Government has misconceived its remedy as it has failed to appeal from the decision against it on the issue of lack of jurisdiction.

To the contrary, it has appealed on three "questions presented", all of which are based upon *non-jurisdictional*, factual allegations upon the assumption that the defendant by its motion to dismiss has admitted the non-jurisdictional allegations of alleged fact to be true. This is not the case and it is not the law as hereinafter pointed out.

The Government has appealed only on matters of law, based upon factual issues not yet tried out, not yet at issue and upon which the Defendant, New Wrinkle, Inc. has not yet had its day in Court.

A motion to dismiss for lack of jurisdiction of the subject matter by counsel, specially appearing for that sole purpose, does not carry with it an admission of the correctness of the allegations in the bill of complaint.

Obviously, the Government is seeking by this short-cut to put upon this Court the burden of deciding moot questions involving factual matters with no record to support the factual allegations in the questions presented except the Government's self-serving Petition. For instance, in question number one, numerous factual issues are, "Did the patentees make such agreements as described factually"? Did it involve "an entire industry"? Was there "conscious participation". In the second question presented factual issues such as follows: "What patents were assigned to a corporation organized by them"? What are the facts as to the alleged conspiracy?

As to question three presented to the Court by the Government there was a question of fact obviously raised by this paragraph.

Motion to Dismiss

We, therefore, move to dismiss on the following grounds:

1. Because the United States of America appealed on three legal and factual questions based upon its unanswered complaint on which no issue has been joined or hearing had on the merits, raising questions on the merits not at issue in the Court below and not appealable here.

2. Because the United States failed to appeal on the fundamental issue of lack of jurisdiction decided against it below.

3. Because the United States is raising moot questions to get a ruling on legal questions not at issue.

Action of Court Below

The Court dismissed the case for lack of jurisdiction over the subject matter as there was no interstate commerce, in view of the averments in paragraph I (2), and the averments in paragraph III (11) first sentence of the Complaint that "New Wrinkle has not engaged in the commercial manufacture and sale of wrinkle finishes at any time since its incorporation in 1927," it is plain that it has not engaged in inter-state commerce and therefore could not be guilty of a violation of Section 1 of the Act of Congress of July 2, 1890, c. 647, 26 Stat. 209, as amended, entitled "An Act to protect trade and commerce against unlawful restraints and monopolies."

Memorandum on Motion to Dismiss by New Wrinkle, Inc.

What has happened in this appeal is that the Government has failed to appeal from the decision of the Court below that there is no jurisdiction under the Anti-Trust

laws as a matter of law over patent licenses offered to any manufacturer to take or give up at any time without restriction as to who gets the license or how long he keeps it. This simple issue decided by the Court below upon the jurisdictional statement of the Government in its complaint has not been appealed from.

To the contrary, Government counsel have appealed on three wholly different questions involving factual matters that this Court would require either that they be agreed upon or that issue be joined, a trial be had and findings of fact and conclusions of law be made of record for its guidance because such matters of fact are critical in determining justly the three questions presented.

These three questions were not involved in the motion to dismiss for lack of jurisdiction. The three questions presented *contained no word dealing with jurisdiction and raised no issue of jurisdiction, but are confined to issues that are triable only if there is jurisdiction.*

The Government's action is premature in appealing on those three questions: it has failed to appeal on the question of whether one who issues licenses under patents with the usual provisions and is not engaged in commercial manufacture or sale of the subject matter is entering into interstate commerce within the making of the Anti-Trust laws. That simple question was not appealed from as decided by the Court below against the United States.

It would be a great hardship upon the defendant, New Wrinkle, Inc. to have the three questions presented heard in this Court on which it has not yet had its day in Court below on the factual and legal matters involved on the merits.

Ex Parte Pleading No Basis for "Questions Presented":

This Court has held that an appeal or petition will not be heard when a final decree has not been entered on the merits of any matter involving litigation upon Plaintiff's petition or other *ex parte* affidavits: the Defendant must have an opportunity to set up and establish its defenses on those matters that go to the merits in the event the case is not otherwise dismissed for lack of jurisdiction which has nothing to do with the merits.

In Meccano, Limited, v. John Wanamaker, New York, 253 U.S. 136, 141, 142, this Court said:

> "Petitioner maintains that its motion for final decree upon the merits should have been sustained. But the appeal was from an interlocutory order and the court could only exercise powers given by statute. On such an appeal a cause may be dismissed if it clearly appears that no ground exists for equitable relief; *but finally to decide a defendant's rights upon the mere statement of his adversary,* although apparently supported by ex parte affidavits and decrees of other courts, *is not within the purview of the act. He is entitled to a day in court with opportunity to set up and establish his defenses. The motion for final judgment was properly overruled.* Eagle Glass & Manufacturing Co. v. Rowe, 245 U.S. 275, 281."

In the instant case the Government has filed its complaint which is divisible into two parts: first, the question of jurisdiction upon which it lost in the District Court (from which it has not appealed); and second, it now appeals on questions on the merits raised by its bill of complaint on which the Defendant, New Wrinkle, Inc. has not, of course, been heard. The Government now endeavors to secure a judgment of this Court on the merits and legal question based on facts not yet settled on the ground that the dismissal for lack of jurisdiction also carries with

it an admission by New Wrinkle, Inc., the Defendant, that its allegations in its bill of complaint other than those dealing with jurisdiction are true and uncontested.

Such is not the law.

Jurisdiction Sole Issue, But Not Raised by United States Appeal:

Consequently, all that the Government can raise on an appeal is the sole question raised by New Wrinkle, Inc. on its motion to dismiss, namely, whether there is jurisdiction in the Federal Court over mere patent licensing without any inter-state commerce being involved. Moving to dismiss on the ground of lack of jurisdiction carries no admission of the correctness of non-jurisdictional allegations and statements of fact *ex parte* in a bill of complaint. This Court so said in *United States et al* v. *Corrick et al*, 298 U.S. 435, 437, 438:

> "On appeal from the granting or refusal of an interlocutory injunction *our inquiry is limited to the question whether the court abused its discretion.*[1] The appellants urge that the action taken constituted such an abuse for the reason that want of jurisdiction is evident upon the fact of the bill. With this contention we agree."

That the questions presented by the United States were not questions decided by the District Court nor presented to it and no judgment has been had upon those questions that depend upon factual proof and can only be decided after the threshold question of jurisdiction is settled; that is, whether patent licensing only is and of itself inter-state commerce which gives rise to the application of the Anti-Trust laws of the United States.

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[1] *Farrington* v. *Tokushige*, 273 U. S. 284, 290; *United Fuel Gas Co.* v. *Public Service Comm'n*, 278 U. S. 322, 326; *Alabama* v. *United States*, 279 U. S. 229, 230; *National Fire Ins. Co.* v. *Thompson*, 281 U. S. 331, 338.

These three legal questions presented by the appeal of the Government of the United States, *are not yet at issue, the Court did not pass upon them and the Appeal is premature* both because the jurisdictional question remains and because the three questions presented involved questions of law and fact not yet passed upon by the District Court and moot at this time. In *Stoll* v. *Gottlieb*, 305 U.S. 165, 176, this Court said:

> "It is frequently said that there are certain strictly jurisdictional facts, the existence of which is essential to the validity of proceedings and the absence of which renders the act of the court a nullity. Examples with citations are listed in Noble v. Union River Logging R. Co. 23" [147 U.S. 165].

A court is not empowered to declare for the Government for the benefit of future cases principles or rules of law on the state of facts which have not yet been contested and decided and which cannot affect the result as to the thing in issue in this case before you at this moment, that is, jurisdiction. If there be no jurisdiction, the rest of the case becomes moot and the only purpose in seeking a decision on the three points said by the Government to be an issue is to secure a ruling of this Court by the Government for future cases.

United States v. *New Wrinkle*

Moot Questions Presented to this Court by the Three Grounds of Appeal of the United States

The Government is endeavoring by its three grounds of appeal to get this Court to decide moot legal questions not involved in the action of the Court below in dismissing the case for lack of jurisdiction. Why did not the government appeal on that simple jurisdictional issue?

The answer is that it is trying to get a decision on other matters covered by its points on appeal without trial,

without the necessary factual background, in an effort to turn this Court into *nisi prius* Court without giving the Defendant, New Wrinkle, Inc. a chance to be heard on such issues, providing there is jurisdiction which the Court below holds is not so.

This has long been the policy of this Court to avoid speculative moot questions. As Mr. Justice Gray said in *California* v. *San Pablo and Tulare Railroad*, 149 U.S. 308, 314:

> ". . . *But the court is not empowered to decide moot questions or abstract propositions, or to declare, for the government of future cases, principles or rules of law which cannot affect the result as to the thing in issue in the case before it.* No stipulation of parties or counsel, whether in the case before the court or in any other case, can enlarge the power, or affect the duty, of the court in this regard.
>
> "The case at bar cannot be distinguished in principle from previous cases in which writs of error have been dismissed by this court under similar or analogous circumstances. Lord v. Veazie, 8 How. 251, 255; Cleveland v. Chamberlain, 1 Black, 419; Wood Paper Co. v. Heft. 8 Wall. 333; San Mateo County v. Southern Pacific Railroad, 116 U.S. 138; Little v. Bowers, 134 U.S. 547; Singer Manuf. Co. v. Wright, 141 U.S. 696. See also Elgin v. Marshall, 106 U.S. 578.
>
> "Writ of error dismissed."

To this same effect is *United States of America* v. *Hamburg-Amerikanische Packetfahrt-Actien Gesellschaft*, 239 U.S. 466, (Mr. Chief Justice White); and *United States* v. *American-Asiatic Steamship Company et al.*, 242 U.S. 537 (Mr. Chief Justice White).

There is only one issue here to be heard now and *that is jurisdiction:* the three factual issues, the sole issues, presented by the Government are premature and have not been passed upon by the Court below. The Government has failed to appeal from the lower Court's decision dismissing this case because of no jurisdiction under the

Anti-Trust laws of the United States, i.e., mere patent licensing without more is not commerce. (Our attached brief elaborates our point). If this were not the rule that only the issue decided by the Court below and the portion of the pleadings so involved would come before this Court, litigants would fear to move in accordance with their rights under the rules in the District Court for fear if they won the Government would then be able to take as settled statement of the fact its uncontested *ex parte* allegations which have never been examined by any Court. If the rule be as the Department of Justice assumes it to be in this case, then no litigant would risk a motion to dismiss for lack of jurisdiction and be deprived of its rights accordingly. Such, however, is not the law and the efforts of the Government on this appeal to have a decision on factual matters as yet unanswered and unheard below must fail under the decisions of this Court.

No Relief:

Sound ground for dismissing an appeal is when it is clear that the Court can afford no relief. The Government having failed to take its appeal on the issue decided below and having substituted other issues involving Findings of Fact and Conclusions of Law that would be necessary from a formal trial in order to dispose of such questions, cannot now urge such grounds of appeal because this Court could afford no relief without a trial having been duly had and without having the benefit of Findings of Fact and Conclusions of Law.

The failure of the Government to appeal the correct issue must carry its own dismissal. As this Court said in *Interstate Circuit, Inc., et al. v. United States*, 306 U. S. 208, 226:—

"... The production of weak evidence when strong is available can lead only to the conclusion that the

strong would have been adverse. Clifton v. United States, 4 How. 242, 247. Silence then becomes evidence of the most convincing character. Runkle v. Burnham, 153 U. S. 216, 225; Kirby v. Tallmadge, 160 U. S. 379, 383; Bilokumsky v. Tod, 263 U. S. 149, 153, 154; Vajtauer v. Commissioner of Immigration, 273 U. S. 103, 111, 112; Mammoth Oil Co. v. United States, 275 U. S. 13, 52; Local 167 v. United States, 291 U. S. 293, 298."

The Government's Appeal Does Not Open Up the Whole Case:

The government cannot appeal by going into questions not decided by the District Court. As this Court said in *United States* v. *Borden et al.*, 308 U. S. 188, 193:

> ". . . (5) When the District Court has rested its decision upon the construction of the underlying statute this Court is not at liberty to go beyond the question of the correctness of that construction and consider other objections to the indictment. *The Government's appeal does not open the whole case.*"

It is well settled that no legal maneuver is legitimate as a means whereby an opinion as to the applicable law may be extracted from the Appellate Court in advance of final hearing. *Meccano, Limited* v. *John Wanamaker*, New York, 253 U. S. 136.

Moot Issues in Three "Questions Presented":

There is no jurisdiction because no inter-state commerce is involved. The issues as to the allegations otherwise by the Government are moot and not for consideration at this time by this Court. *United States of America* v. *Hamburg-Amerikanische Packetfahrt-Actien Gesellschaft*, 239 U. S. 467; *United States* v. *American-Asiatic Steamship Company et al.*, 242 U. S. 537.

The Mere Fact That Patent Licenses As Personal Services Deal with Products Shipped in Inter-state Commerce Does Not Make Patent Licensing Inter-state Commerce:

The foregoing rule has been frequently followed by this Court. The Anti-Trust laws are based upon inter-state commerce only. *United States* v. *Joint Traffic Association*, 171 U. S. 505, 567, 568, 573. They do not cover personal services, such as invention and licensing of patents, unless the patentee steps out of the patent laws and enters into inter-state commerce—both must concur. *Hopkins* v. *United States*, 171 U. S. 578; *Anderson* v. *United States*, 171 U. S. 604. A patentee's intellectual work protected by statute is in the same category as the working men with their hands. *United Leather Workers International Union, Local Lodge or Union No. 66, et al.* v. *Herkert & Meisel Trunk Company et al.*, 265 U. S. 457; *Industrial Association of San Francisco, et al.* v. *United States*, 268 U. S. 64; *United States* v. *Yellow Cab Co. et al.*, 332 U. S. 218, 230, 234; holding that taxi cab services engaged locally in transporting passengers travelling from state to state "that such transportation is too unrelated to interstate commerce to constitute a part there, under the meaning of the Sherman Act."

It should be remembered that New Wrinkle, Inc. licensed any person, firm, or corporation with a provision for fixing the minimum sales price of its licensees pursuant to *United States* v. *General Electric Company et al.*, 272 U. S. 476 in reliance upon that decision, repeatedly affirmed by this Court. *It does not manufacture.*

It merely exercises its legal rights under the patents it owns to license anybody who can use the patents and they may keep their license for as long as the licensee pleases or give it up when it pleases. "The *General Electric* case construes that as giving a right to a patentee to license

another to make and vend at a fixed price." *United States v. Line Material Co. et al.*, 333 U. S. 287, 312.

The Government failed to raise, by its appeal, this simple issue and tries to substitute issues not decided by the Court below for reasons this Court will doubtless understand. Where a licensor does not sell anything in commerce nor ship any goods in commerce nor control anything that a licensee does except that he pays a royalty and must sell at a stipulated minimum price under the patent, only the patent laws apply.

As a matter of interest, our position is the real issue of jurisdiction, not appealed from, is as follows:

In connection with the original basis of the Motion to Dismiss, which is the averment in paragraph I (2) and III (11) that "New Wrinkle has not engaged in the commercial manufacture and sale of wrinkle finishes at any time since its incorporation in 1927", and therefore is not engaged in interstate commerce.

The activities of New Wrinkle, Inc., to be within the prohibition of the Sherman Act, a matter of inter-state commerce and must be in restraint of trade or commerce among the several states, Sherman Act, Section 1: The Complaint must state a case by showing that two grounds exist which are both essential to sustain a Complaint under the Anti-Trust Acts.

A. Interstate commerce and such inter-state commerce which is a part of a larger plan to control inter-state markets, *outside of the patent laws.*

Standard Oil Company vs. United States, 283, U. S. 163, 169.

B. Unreasonable restraint of inter-state commerce, *outside of the patent laws.*

This defendant's position is that whatever action it has taken has been purely within the scope of its lawful patent

monopoly and *is neither in inter-state commerce nor a violation of the Sherman Act.* New Wrinkle has not entered into a conspiracy with any other entity. So long as it stays within the patent laws it cannot be stopped under the Anti-Trust Laws. *United States* v. *Line Material Co.*, (March 8, 1948), 333 U. S. 287; 304, 307, 308, 309, 310, 312; and cases cited.

The Anti-Trust statute is based upon inter-state commerce only: New Wrinkle, Inc. is not so engaged.

In *Hopkins* v. *United States*, 171 U. S. 578, and in *Anderson* v. *United States*, 171 U. S. 604. *A patentee is merely selling the results of his labor in making the invention which he is authorized to do by the government of the United States when he issues a patent license.*

Even if he combines with others he is merely disposing of his personal services by way of a patent license and is not engaging in inter-state commerce because he sells nothing that moves as a physical thing in trade. So long as you stay within the patent law and do not step out into any commercial non-patent operation you are not affected by the Sherman Anti-Trust Act.

United States v. *Line Material Co.*, 333 U. S. 287, affirming *United States* v. *General Electric Co.*, 272 U. S. 476, *United States* v. *Univis Lens Co.*, 316 U. S. 216, etc.

Where an inventor or his assignee own the patentable results of his labor, issues license contracts and does no manufacturing, his position is that of any other laborer. In *Apex Hosiery Co.* v. *Ledder et al.*, 310 U. S. 469, this Court held that controlling goods that would be ultimately shipped in inter-state commerce and in stopping a business from shipping in inter-state commerce was no ground for charging a conspiracy in restraint of trade or commerce between the several states. *United Mine Workers of America et al.* v. *Coronado Coal Company et al.*, 259 U. S.

344; *United Leather Workers International Union, Local Lodge or Union No. 66, et al.* v. *Herkert & Meisel Trunk Company et al.*, 265 U. S. 457; *Apex Hosiery Co.* v. *Leader et al.*, 310 U. S. 469.

Patent Licenses are merely a means of selling the technical brains and technical services of the inventor. As such, it has been the settled law, repeated again in *Apex Hosiery Co.* v. *Leader, et al.*, 310 U. S. 469, 501, 502, that personal services and the product of personal services and their sale and even a combination of persons among themselves in the sale of their services or the results therefrom is not considered an illegal restraint of trade at common law nor under the Sherman Act, either because it is not thought to be unreasonable or because it was not deemed a restraint of trade.

So we see here that these inventions in wrinkle finish and the sale of the rights under them are merely a way of opening to the public the sale of the technical services of the inventors and those who succeed to their rights and as such license contracts expressing such sale of services are no more inter-state commerce under the Sherman Act than are the services of employees and technicians who make hosiery or any other product even though their actions do in effect serve to restrain trade. In the instant case we do not restrain trade, but we promote it by widely distributing the services through patent licenses.

A stream rises no higher than its source and patents and what they cover constitute no more than the rights of the individual inventors. It is our proposition that an individual inventor has a right under the law to sell or not sell, and to license or not license, and if he licenses to fix the price at which his licensee sells. This Court has said so many times and as recently as in *United States* v. *Line Material Co.*, 333 U. S. 287, affirming *United States* v. *General*

Electric Co., 272 U. S. 476. Therefore, having been granted this right under the patent law to fix prices which is legal per se under patents and licenses, being merely the sale of personal services approved by the Supreme Court in the *Apex Hosiery* case as not being the subject of inter-state commerce even when individuals combine their services, we respectfully submit that the license contracts under patents assembled together from various inventors in order to open up the rights to all their patents to anybody is not inter-state commerce and even if it were could not be a restraint of trade. *Apex Hosiery Company v. Leader, et al.*, 310 U. S. 469, 502:

> ". . . . Since the enactment of the declaration in Sec. 6 of the Clayton Act that 'the labor of a human being is not a commodity or article of commerce . . . nor shall such (labor) organizations, or the members thereof, be held or construed to be illegal combinations or conspiracies in the restraint of trade under the antitrust laws,' . . . ."

(a) *Merely licensing under the patent law is not engaging in commerce—mere legal right to enjoy the statute is a matter of law and not a matter of commerce.*

The Defendant, New Wrinkle, Inc., has done two things as to which there is no dispute as a matter of fact: first, it has entered into a lease of its patent rights which rental agreement has the technical name under the patent law of a "License". This is authorized by patent law.

Secondly, New Wrinkle, Inc. has placed in its license agreement a requirement that it may specify the price at which its licensees sell the patented wrinkle finishes. This is legal as established in *United States v. General Electric Co.*, 272 U. S. 476; *United States v. Univis Lens Co., Inc.*, 316 U. S. 216; and *United States v. Line Material Co.*, 333 U. S. 287.

The foregoing two things are performed under the patent law and are approved by the statutes and the courts.

New Wrinkle, Inc. does not sell anything in commerce nor does it ship any goods in commerce nor does it control anything that a licensee does except that he pays five cents a gallon and must sell at a stipulated minimum price under the patent.

In *United Shoe Machinery Corp., et al.* v. *United States*, 258 U. S. 451, 465, the Supreme Court held that the fact that United Shoe *leased its machines* and shipped them across state lines and made leases between citizens of different states did not constitute inter-state commerce in and of itself. The Court said: "It is true that the mere making of the lease of the machines is not of itself interstate commerce."

Ware, et al. v. *Mobile County*, 209 U. S. 405.

In each case of the companies licensed by New Wrinkle, Inc. they manufacture their goods in a particular state and sell them from their factories. The license to do so is a mere contract between citizens of different states.

As Mr. Justice Stone said in *Western Live Stock, et al.* v. *Bureau of Revenue, et al.*, 303 U. S. 250:

> "*That the mere formation of a contract between persons in different states is not within the protection of the commerce clause,* at least in the absence of Congressional action, unless the performance is within its protection, is a proposition no longer open to question. Paul v. Virginia, 8 Wall. 168; Hooper v. California, 155 U. S. 648; New York Life Ins. Co. v. Deer Lodge County, 231 U. S. 495; cf. Ware & LeLand v. Mobile County, 209 U. S. 405; Engel v. O'Malley, 219 U. S. 128" (p. 253).

Accordingly, the Court held that "the business of preparing, printing and publishing magazine advertising is

peculiarly local and distinct from its circulation whether or not that circulation be interstate commerce'' (p. 258).

In the instant case New Wrinkle, Inc.'s action is finished with granting the license and supplying any technical information which may help the licensee. Its action is, therefore, ''distinct'' from the subsequent manufacturer, who is a licensee, whose products may be circulated in inter-state commerce.

Contracts for future delivery on a Board of Trade for the movement of goods in inter-state commerce ''are not in and of themselves interstate commerce.'' *Hill* v. *Wallace*, 259 U. S. 44, 69.

This Court followed a settled rule in *Chicago Board of Trade* v. *Olsen*, 262 U. S. 1, 32-3: *Moore* v. *New York Cotton Exchange*, 270 U. S. 593, 604; *Hopkins* v. *United States*, 171 U. S. 578, 588-9, 602, that contracts between citizens of different states and nothing more are not inter-state commerce. The fact that as a result physical goods move in commerce across state lines is not controlling.

(b) *As a matter of law license contracts cannot be a matter of commerce.*

In *Industrial Association of San Francisco* v. *United States*, 268 U. S. 64, Mr. Justice Sutherland held, on behalf of a unanimous court, that contracts between contractors and dealers in building materials which had the effect of regulating movement of materials in interstate commerce, but which were separable from such movements, as in the case of the patent licenses here are separable from the resulting subsequent manufacture and shipment by wrinkle finishes by the licensees and are not inter-state commerce.

Levering & Garrigues Co. v. *Morrin*, 269 U. S. 103;
United Leather Workers v. *Herkert & Meisel Trunk Co.*, 265 U. S. 457;
Local 167 v. *United States*, 291 U. S. 293;

United States v. *Hutcheson*, 312 U. S. 219;
Associated Press v. *Labor Board*, 301 U. S. 103.

(c). *Manufacturing and selling or entering into commercial activities may be commerce, but a patent license under the law does not constitute doing business. They may relate to things or events in other states than that of their execution but they do not contain any obligation to engage in any form of inter-state commerce.*

The Supreme Court has been consistent that even inter-state contracts are not the subject of inter-state commerce simply because they are negotiated between citizens of different states, where the contract itself is to be completed and carried out wholly within the borders of a state, although such contracts incidentally affect inter-state trade.

In the instant case the contract between The Kay & Ess Company and New Wrinkle, Inc. was concluded within the State of Ohio where New Wrinkle, Inc. had its headquarters at Dayton, Ohio, and where The Kay & Ess Company had its headquarters at Dayton, Ohio.

In the case now at bar the legality of a patent license contract and of a price control feature under the patent laws of the United States has been repeatedly upheld by the Supreme Court and so long as a patent license is of the character as in this case the Sherman Anti-Trust Laws do not apply. *United States* v. *General Electric*, 272 U. S. 476.

So far as we are aware no case has ever held that a contract of license under the patent laws, even though it may incidentally affect the movement of inter-state goods is inter-state commerce. The government has cited no cases to that effect.

In the instant case, the patent laws have already for many years authorized such patent licenses. To make such

licenses subject to the Sherman Anti-Trust Law activities under them must meet two conditions:

(a) To be beyond the authority of the patent laws as interpreted by the Supreme Court of the United States.

(b) To do more than merely constitute contracts between citizens of different states, pursuant to the patent laws, even though they incidentally affect or effect ultimately the movement of licensed goods in interstate commerce.

It is significant that in the government's Complaint the only thing that it claims is a violation of the Sherman Anti-Trust laws, is the fixing of prices by the licensor at which the licensee will make his first sale. Even in its brief below the Government admits that this is the law and that it is legal to fix a price under a patent license on a first sale under the doctrine of the *General Electric* case. Its sole excuse for re-litigating this issue against this little company, New Wrinkle, Inc., is that the sustaining of the *United States* v. *General Electric* in *United States* v. *Line Material* and *United States* v. *Gypsum* was by a divided court.

Therefore, these contracts of license being authorized by the Federal Statutes come within the exception referred to in *United States* v. *Underwriters Association*, 322 U. S. 533, 560, by Mr. Justice Frankfurter, where he pointed out that if Congress had defined insurance with particularity and had enacted legislation specifically authorizing and controlling such contracts, there would have been a different result. Logically, therefore, as patent licenses are under statutory authority of the United States they are not subject to the Anti-Trust Laws except where they are used in inter-state commerce *outside of the patent laws*[2] as an

[2] "* * * In these circumstances, *we must proceed to determine the issues on the assumption that General Electric continues as a precedent.* Furthermore, we do not think it wise to undertake to explain, further than the facts of this case require, our views as to the applicability of patent price limi-

instrument for which they were not intended or authorized to unreasonably restrain competition.

(d) *Any dealings between The Kay & Ess Company and New Wrinkle, Inc. were in the State of Ohio and were not inter-state commerce.*

(e) These contracts of license do not cause any movement of goods or affect the sale of goods as between the licensor and licensee. The act of making any contract which does not stipulate for the performance of an act or transaction

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tation in the various situations listed by the government. On that assumption where a conspiracy to restrain trade or an effort to monopolize is not involved, a patentee may license another to make and vend the patented device with a provision that the licensee's sale price shall be fixed by the patentee. The assumption is stated in this way so as to leave aside the many variables of the General Electric rule that may arise. * * * (333 U. S. 287, 304.)

"* * * In the absence of patent or other statutory authorization, a contract to fix or maintain prices in interstate commerce has long been recognized as illegal *per se* under the Sherman Act. This is true whether (333 U. S. 287, 307) the fixed price is reasonable or unreasonable. It is also true whether it is a price agreement between producers for sale or between producer and distributor for resale. It is equally well settled that the possession of a valid patent or patents does not give the patentee any exemption from the provisions of the Sherman Act beyond the limits of the patent monopoly. * * * The progress of our economy has often been said to owe much to the stimulus (333 U. S. 287, 308) to invention given by the rewards allowed by patent legislation. The Sherman Act was enacted to prevent restraints of commerce *but has been interpreted as recognizing that patent grants were an exception. Bement* v. *National Harrow Co., supra,* 92, 21 Cong. Rec. 2457. * * * (333 U. S. 287, 309) *The monopoly granted by the patent laws is a statutory exception to this freedom for competition and consistently has been construed as limited to the patent* grant. *Ethyl Gasoline Corp.* v. *United States,* 309 U. S. 436, 452, 455; *United States* v. *Univis Lens Co.,* 316 U. S. 241; *Hartford-Empire Co.* v. *United States,* 323 U. S. 386. It is not the monopoly of the patent that is invalid. It is the improper use of that monopoly. (333. U. S. 287, 310.) * * *

"* * * The patent statutes given an exclusive right to the patentee to make, use and vend and to assign any interest in this monopoly to others. *The General Electric case construes that as giving a right to a patentee to license another to make and vend at a fixed price.* * * *" (333 U. S. 287, 312).

of inter-state commerce is not in itself inter-state commerce. This has been held to be true even though the contract be effected by exchange of communications across state lines:

United States v. *Line Material Co.*, 333 U.S. 287, 304, 308, 309, 310, 312 (March 8, 1948.)

New York Life Ins. Co. v. *Cravens*, 178 U. S. 389;
Ware & LeLand v. *Mobile County*, 209 U. S. 405;
New York Life Ins. Co. v. *Deer Lodge County*, 231 U. S. 495.

"The mere fact that an anticipated local transaction causes a movement in interstate commerce is not sufficient to constitute the local transaction a part of interstate commerce."

Jewel Tea Co. v. *Williams* (CCA 10) 118 F. (2d) 203, citing *Lipson* v. *Socony Vacuum Corporation*, (CCA 1; 87 F. (2d) 265; *Moore* v. *New York Cotton Exchange*, 270 U.S 593; *Ware & LeLand* v. *Mobile County*, 209 U.S. 405; *Schechter Corp.* v. *United States*, 295 U.S. 495.

Conclusion:

In view of the foregoing, it is obvious that the Plaintiff has misconceived its action.

H. A. Toulmin, Jr.,
308 West 1st St.,
Dayton 2, Ohio

Attorney for the Defendant, New Wrinkle, Inc., Specially Appearing for the Sole Purpose of Contesting the Jurisdiction of this Court and for no Other Purpose.